



Are You Ready to Be Audited???

According to Jay Goltz in a New York Times blog [post](#), the #4 reason why small businesses fail is **Poor Accounting**. You cannot be in control of a business if you don't know and control how the money is being spent. Makes sense, right? The government thinks so too. So if you're an SBIR/STTR awardee you need to get familiar with the particulars of a financial audit because your benefactor wants to know that your financial systems are on solid ground to ensure proper handling and reporting of their dollars.

The word "audit" can strike fear into the hearts many - upstanding or otherwise - but here are three reasons, SBIR/STTR awardees can actually appreciate audits:

1. Being compliant is an important factor in your ability to secure future government funding.
2. Having a tidy financial house paves the way for positive due diligence results when your company is evaluated by outside investors.
3. Going through the process of preparing for an audit provides valuable information needed to manage your business successfully.

Each federal agency determines when, how and who will be audited. For example, NIH requires an audit when an organization under federal grants, procurement contracts or operating agreements expends \$500,000 and at least one of your awards is a HHS grant. By contrast, NSF grants are only audited at the request of the program officer. Most agencies will request a pre-award survey to confirm that the company accounting system will comply with the required standards.

Whether your audit is done by a CPA, independent auditing company, the Office of Audits (part of the Attorney General's Office), or the Defense Contract Audit Agency (DCAA) in the case of DOD, the auditors will looking for many of the same things:

- Have you established internal controls, i.e., is there clear understanding of who does what (like signing checks, making purchases, and authorizing travel)
- Is your accounting system set up so that costs are separated by cost type (direct, indirect and unallowable) and by project (contract/grant/activity)
- Are you compliant with government rules on issues such as:
 - Using government dollars for unallowable costs
 - Cash flow management – is the billing accurate?
 - Reporting - are you filing on time?
 - Time & effort management system – do you have time sheets and are they accurate?

Key elements of your accounting system are the ability to:

- Accumulate costs by project/grant/contract
- Capture and allocate indirect costs in a consistent equitable manner
- Segregate unallowable costs (per 48 CFR part 31.2) - patents, sales marketing - not covered by grant
- Provide ability to calculate indirect costs rate(s)
- Time & effort reporting by project - up to date, separated by co activity
- Provide reports by project

These specifics in addition to general accepted accounting principles (GAAP) will be the basis of an audit.

There are several sources for additional information on federal requirements:

48 CFR Subpart 31.2 - Contracts with Commercial Organizations (Cost Principles)
www.acquisition.gov/far/current/html/Subpart%2031_2.html

42 CFR Part 52 – Grants for Research Projects

www.access.gpo.gov/nara/cfr/waisidx_03/42cfr52_04.html

45 CFR Parts 74 and 92 – Public Welfare, Administrative Requirements (Pre & Post award)

(74) www.access.gpo.gov/nara/cfr/waisidx_04/45cfr74_04.html

(92) www.access.gpo.gov/nara/cfr/waisidx_04/45cfr92_04.html

OMB (Office of Management and Budget) Circulars A-110: Uniform Administrative Requirements for Grants and Agreements

www.whitehouse.gov/omb/circulars

Defense Federal Acquisition Regulation

www.acq.osd.mil/dpap/dars/dfarspgi/current/index.html

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